


CITY OF RIALTO

AGENDA REPORT

For Special City Council Meeting of February 8, 2005

TO:	Honorable Mayor and Council Members
APPROVAL:	Henry T. Garcia, City Administrator
FROM:	June Overholt, Chief Financial Officer 
SUBJECT:	Acceptance of Fiscal Year 2003/04 Annual Financial Statement, Redevelopment Agency Financial Statement, Compliance Report (Single Audit), Letter to Council and Management Letter.
DATE:	January 31, 2005

BACKGROUND:

In order to meet the guidelines set forth in Statement No. 1 of the Governmental Accounting Standards Board, the City contracts to have an annual audit performed. The City's annual audit for the fiscal year ended June 30, 2004 has been completed by McGladrey & Pullen, LLP. Both the City and Redevelopment Agency audit resulted in clean opinions.

ANALYSIS/DISCUSSION:

Annual Financial Statement

The Annual Financial Statement summarizes the activity of all City funds. This is the second year of reporting the statements in conformance with Governmental Accounting Standards Board (GASB) 34. This change in format replaces the format established in 1979 and is the biggest change in format in the history of governmental accounting.

The GASB 34 model includes features, such as, government-wide financial reporting, narrative overview and analysis (management's discussion and analysis – MD&A) and infrastructure reporting. An overview of these features are described below.

- ❖ Government-wide financial reporting. Users of state and local government financial reports now have access to government-wide financial statements that present the government as a single, unified entity. These are consolidated financial statements for all of the City's operations on a full accrual basis of accounting. The fiscal operations are now organized into two major activities: governmental and business-type.

These statements will have a "Net Asset" focus, and provide a reconciliation of the Net Assets, which is a part of the report. These new government-wide financial statements complement rather than replace the traditional fund-based

financial statements. In addition to the infrastructure described below, they represent the long term financing obligations of the City.

- ❖ Infrastructure reporting. The new governmental financial reporting model requires that governments report their infrastructure assets as an asset in the financial statements. In the past, these were expensed. Infrastructure assets include roads, bridges, tunnels, drainage systems, water and sewer systems, dams and lighting systems, etc. Capital assets including infrastructure must be depreciated. The full implementation of capturing infrastructure acquired prior to fiscal year 2002/2003 still needs implementing. The City has until June 30, 2007 to accomplish this.
- ❖ Narrative overview and analysis. The new governmental financial reporting model provides financial report users with a narrative introduction, overview and analysis of the City's financial activities in the form of management's discussion and analysis (MD&A). The intent is to provide information similar to what the private sector organizations provide.

The financial statements include not only significant changes in the presentation of the financial condition of the City, but also include expanded footnotes which describe additional GASB standards the City will be required to implement. The intent of the Government Accounting Standards Board (GASB) is to provide information to City officials, staff and external users of the reports that better conveys the City's fiscal condition.

Redevelopment Agency Financial Statement

The Redevelopment Agency Financial Statements have also been reported under the new GASB 34 model. Because Redevelopment activity is debt financed and the GASB 34 model requires reporting long term debt, the Net Assets do reflect a deficit. The RDA is a component unit of the City of Rialto and, as such, its activities are blended into the financial statements of the City.

Compliance Report

The majority of this document is required by the Office of Management and Budget (OMB) Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." It presents the results of the compliance audit of the City with respect to our federal financial assistance. This report is referred to as the "Single Audit".

Management Letter

The management letter in the past has included three sections: accountant's letter, fiscal matters, reportable conditions and future opportunities. Due to the successes of staff and Council in implementing better internal controls and resolving significant fiscal matters, the management letter this year has been simplified to providing constructive suggestions that should be considered as part of the City's effort of improving its procedures.

Report to the Mayor and the City Council

This letter is somewhat new to the deliverables prepared by the auditors. This report provides the Council with information on matters required by the auditing standards generally accepted in the United States. This letter reports items related to the audit process and future GASB pronouncements the City will need to implement.

Independent Auditor's report on the Utility User Tax Letter

This letter has been prepared in accordance with the guidelines established in the ordinance for the Utility User Tax administration.

Audit Workshop

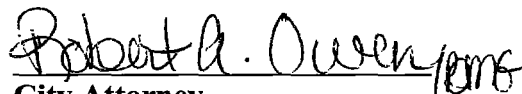
The partner from McGladrey & Pullen responsible for the independent audit will be presenting the audited financial reports to Council. The presentation will include an overview of the financial condition of the City and provide information on how to better understand the financial reports.

ENVIRONMENTAL IMPACT:

None

LEGAL REVIEW:

The staff report has been reviewed and approved by the City Attorney.


City Attorney

FINANCIAL IMPACT:

None.


Chief Financial Officer

RECOMMENDATION:

- Staff recommends that City Council receive and file the attached audited financial statements for the fiscal year ended June 30, 2004.

Attachments:

- (1) Report to the Mayor and City Council
- (2) Management Report Letter
- (3) Independent Auditor's Report on UUT letter
- (4) City of Rialto Annual Financial Statement
- (5) Redevelopment Agency Financial Statement
- (6) Compliance Report (Single Audit)

Prepared by Jane Overholt, Chief Financial Officer